

Answers to Review Problems for Test #1

I do not show my work. You would need to show your work to get full credit on the exam.

- A. (1) False. It is its marginal cost curve above average variable cost.
(2) False. Each side just needs to have a gain from trade.
(3) True. At least in the short run, until some rental housing can be converted to other uses.
(4) False. Price will remain constant and quantity will decrease.
- B. (1) two vertical lines (if pepperoni is measured on the horizontal axis)
(2) the demand curve shifts to the left, so price and quantity decrease.
(3) quantity supplied increases by 25 percent
(4) many possible examples, e.g. dollar bills at the price of \$1
- C. (1) straight line with slope -6 and vertical intercept 30, horizontal intercept 5
(if cokes are on the vertical axis)
(2) zero
- D. (1) $2/L$
(2) $L/2K$ (or $2K/L$)
(3) 4
(4) $6\ln K + 12\ln L - 2K - L$
- E. (1) $P = 5, Q = 1750$
(2) $P = 6.80, Q = 1660$
(3) 90
(4) $P = 4.80, Q = 1660$
(5) 90
(6) many possible answers....